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Canadian Marconi Company

**Annual Report
March 31, 1977**

Directors

- * C.-E. Bélanger, C.A.
Counsel
Bélanger, Saint-Jacques, Sirois, Comtois & Cie
Sherbrooke, Canada

L.M. Daley
President and Chief Executive Officer
Canadian Marconi Company
Montreal, Canada

- * S. Dobb, F.C.A.
Assistant Managing Director
GEC-Marconi Electronics Ltd.
London, England

S.M. Finlayson
President
Canmar Investment Company Limited
Montreal, Canada

H. Hansard, Q.C.
Counsel
Ogilvy, Montgomery, Renault, Clarke,
Kirkpatrick, Hannon & Howard
Montreal, Canada

E.O. Herzfeld
Vice Chairman, Canadian Marconi Company
Associate Director
The General Electric Company Limited
London, England

- ** H.J. Lang
Chairman
Canron Limited
Montreal, Canada

J.E. Pateman, C.B.E., M.I.E.E.
Managing Director
Marconi-Elliott Avionic Systems Ltd.
London, England

I.D. Sinclair, Q.C.
Chairman and Chief Executive Officer
Canadian Pacific Limited
Montreal, Canada

R. Telford, C.B.E., F.I.E.E.
Director
The General Electric Company Limited
Managing Director
GEC-Marconi Electronics Ltd.
London, England

- ** *Chairman Audit Committee*

- * *Member Audit Committee*

Officers

E.O. Herzfeld
Vice Chairman

L.M. Daley
President and Chief Executive Officer

W. Baillie
Senior Vice President, and Manager Products and Markets

P.E. Wheatley
Senior Vice President, and Chief Financial Officer and Treasurer

D.A. Beggs
Vice President and Comptroller

J.A. Howlett
Vice President, Organization and Personnel

C.W. Perry
Vice President, Corporate Affairs and Secretary

D.A. Collins
Vice President, Special Services Division

J.W. Dodds, Ph.D.
Vice President, Telecommunications Division

G. Gorfinkel
Vice President, Marine and Land Communications Division

C. Filiatrault
Assistant Secretary

D.J. Smallwood
Assistant Treasurer

Head Office

2442 Trenton Avenue, Montreal, Quebec H3P 1Y9
Telephone: (514) 341-7630

Registrar

Montreal Trust Company
Montreal, Canada

Transfer Agent

Canada Permanent Trust Company
600 Dorchester Boulevard West, Montreal, Canada H3B 1N6

Auditors

Price Waterhouse & Co.
Montreal, Canada

The Annual General Meeting of Shareholders will be held at the Company's
Head Office in the City of Montreal, 380 Aberdare Road entrance,
on Thursday morning, August 11, 1977 at 11:00 o'clock.

Pour obtenir une copie française de notre rapport annuel,
prière d'adresser votre demande au Secrétaire de la Société.

Financial Highlights

(in thousands of dollars, except as otherwise stated)

	Year ended March 31				
	1977	1976	1975	1974	1973
Sales and other revenues	\$58,325	\$58,288	\$50,827	\$42,144	\$56,688
Depreciation and amortization	1,219	1,033	1,026	1,090	1,312
Net income:					
before extraordinary items	2,068	4,005	3,350	2,041	1,708
after extraordinary items	2,068	4,005	3,350	2,041	11,708
Dividends	1,189	1,189	891	743	594
Shareholders' equity	41,052	40,173	37,027	34,568	33,270
Funds (Working Capital)	40,815	40,134	37,033	35,281	33,602
<hr/>					
Number of shares (in thousands)	5,943	5,943	5,943	5,943	5,943
Per share data (in dollars)					
Net income					
before extraordinary items	0.35	0.67	0.56	0.34	0.29
after extraordinary items	0.35	0.67	0.56	0.34	1.97
Dividends	0.20	0.20	0.15	0.125	0.10
Shareholders' equity	6.91	6.76	6.23	5.82	5.60

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Directors' Report to Shareholders

Results for the Year

The Company's sales and revenues of just over \$58 million for the year ended March 31, 1977 were close to those of the previous fiscal year, but earnings fell significantly short of the levels achieved in the past two fiscal years. Income in the first half of the fiscal year was badly affected by cost variances related mainly to the development of new avionic products and by the need to make provisions against slow-moving inventories in the Avionics Division. As foreseen in our half-yearly report, corrective measures taken enabled earnings in the second half to recover considerably. The second half also benefited from a more favourable composition of sales compared to the first half and from exchange gains taken on U.S. dollar receipts which largely offset exchange losses incurred in the first half.

With second half earnings at 31 cents per share compared to 36 cents a year ago, the result for the year was 35 cents per share compared to 67 cents a year ago.

Backlog and Outlook for Current Year

Our continuing and costly efforts to improve order backlog have not so far rebuilt our order book to the higher level we seek. In the international markets in which we sell, we have been affected by cancellations and deferments of major projects. Our order backlog at fiscal year end was \$35 million compared with just under \$33 million a year ago and a low of \$30 million during the year.

Nevertheless, the immediate outlook is satisfactory. The year has got off to a good start, though the extent to which earnings for the current year will exceed those of last year must obviously depend on our intake of new business in the coming months.

The adjustment of the Canadian dollar to a lower value in terms of foreign currencies is already assisting our competitive position in export markets, but the higher rate of cost inflation being experienced by Canadian industry compared to its major competitors remains a serious problem.

Activities and Products

Although no major orders were obtained that significantly affected the level of order backlog, encouraging progress was made during the year in

penetrating export markets for the Company's more recently developed product lines, which include a light-weight low-cost version of the Doppler navigation system (CMA-717) and a range of airborne engine instrumentation systems. Of particular importance to us is an order for 105 Omega navigation systems from Pan American World Airways for installation in its Boeing 707 fleet, our first major sale of this equipment to a commercial airline.

Our more established product lines in the field of mobile and base station communications continued to contribute satisfactorily to sales and profits. A large proportion of this area of our activity is directed at the Canadian domestic market, in which the improvement of profit margins is still restricted by this country's anti-inflation legislation.

Investments

At fiscal year end, our cash and short-term investments totalled over \$31 million, which was slightly lower than at the start of the year. However, investment income increased substantially from the previous year, due partly to the better yields earned throughout most of the period and partly to the higher average value of the portfolio.

Our search for new investment opportunities was temporarily retarded by the internal difficulties referred to earlier but is again receiving urgent attention.

Dividends

Despite the reduction in earnings in the year under review, our recent dividend rate of 10 cents per half-year was well covered, and a dividend of 10 cents per share has therefore been declared on May 20, 1977, payable on June 17, 1977, to shareholders of record as at June 3, 1977.

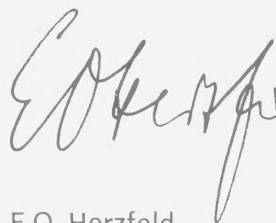
Management and Officers

In August 1976, Mr. D.A. Collins, Divisional Manager of the Special Services Division, was appointed a Vice President of the Company. In October 1976, Mr. J.H. Simons was promoted to become Divisional Manager of the Avionics Division in place of Mr. K.C.M. Glegg.

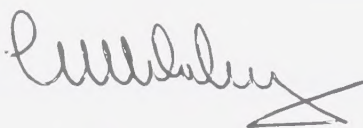
Tribute to Staff

The Directors once again wish to thank our employees for their loyal support during an exceptionally difficult year.

On behalf of the Board,



E.O. Herzfeld
Vice Chairman



L.M. Daley
President and
Chief Executive Officer

Montreal, Quebec
May 20, 1977

Consolidated Balance Sheet

	March 31	
	1977	1976
	(in thousands)	
Assets		
Current assets:		
Cash	\$ 1,288	\$ 2,588
Short-term investments, at cost, including accrued interest (approximates market)	30,212	29,823
Accounts receivable	9,815	7,675
Owing by associated companies	163	578
Inventories (Note 2)	11,430	10,790
Prepaid expenses	230	283
	<u>53,138</u>	<u>51,737</u>
 Deferred accounts receivable	 <u>162</u>	 <u>214</u>
 Fixed assets, at cost less accumulated depreciation (Note 3)	 <u>7,023</u>	 <u>7,210</u>
	 <u><u>\$60,323</u></u>	 <u><u>\$59,161</u></u>

Approved by the Board:

L.M. Daley, *Director*

E.O. Herzfeld, *Director*

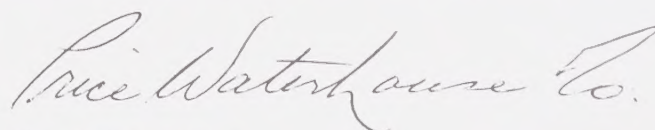
Liabilities and Shareholders' Equity	March 31	
	1977	1976
	(in thousands)	
Current liabilities:		
Accounts payable and accrued liabilities	\$10,293	\$ 9,471
Owing to associated companies	610	297
Income taxes	1,173	1,587
Sales and excise taxes payable	247	248
	<u>12,323</u>	<u>11,603</u>
Deferred income taxes	<u>884</u>	<u>1,053</u>
Long-term debt (Note 4):		
5 ³ / ₄ % unsecured sinking fund debentures, Series A, due May 1, 1988	3,888	4,146
7 % unsecured sinking fund debentures, Series B, due June 1, 1989	2,176	2,186
	<u>6,064</u>	<u>6,332</u>
Shareholders' equity:		
Capital stock:		
Authorized: 7,500,000 shares of \$1 each		
Issued: 5,943,192 shares	5,943	5,943
Contributed surplus	4,273	4,273
Retained earnings	30,836	29,957
	<u>41,052</u>	<u>40,173</u>
	<u>\$60,323</u>	<u>\$59,161</u>

Auditors' Report

To the Shareholders of Canadian Marconi Company

We have examined the consolidated balance sheet of Canadian Marconi Company as at March 31, 1977 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at March 31, 1977 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.



Chartered Accountants
Montreal, May 24, 1977

Consolidated Statement of Income

	Year ended March 31	
	1977	1976
	(in thousands)	
Revenue:		
Electronic products	\$55,569	\$56,154
Interest from short-term investments	2,756	2,134
	<u>58,325</u>	<u>58,288</u>
Operating costs and expenses:		
Manufacturing, selling and administrative	50,061	47,561
Research and development (net of government participation – \$951,000, 1976 – \$1,637,000)	3,142	2,466
Depreciation (Note 3)	1,219	1,033
Interest on long-term debt	385	393
	<u>54,807</u>	<u>51,453</u>
Income before income taxes	3,518	6,835
Provision for income taxes	1,450	2,830
Net income	\$ 2,068	\$ 4,005
Earnings per share	\$ 0.35	\$ 0.67

Consolidated Statement of Retained Earnings

	Year ended March 31	
	1977	1976
	(in thousands)	
Retained earnings, beginning of year	\$29,957	\$26,811
Refund of prior years' income taxes	—	330
Net income	2,068	4,005
	<u>32,025</u>	<u>31,146</u>
Dividends – 20 cents per share	1,189	1,189
Retained earnings, end of year	\$30,836	\$29,957

Consolidated Statement of Changes in Financial Position

	Year ended March 31	
	1977	1976
	(in thousands)	
Funds (working capital) were provided from:		
Operations –		
Net income	\$ 2,068	\$ 4,005
Depreciation	1,219	1,033
Deferred income taxes	(169)	(125)
	<u>3,118</u>	<u>4,913</u>
Proceeds from sale of fixed assets	219	134
Decrease in deferred accounts receivable	52	167
Refund of prior years' income taxes	—	330
	<u>3,389</u>	<u>5,544</u>
Funds (working capital) were applied to:		
Additions to fixed assets	1,251	1,171
Reduction of long-term debt	268	83
Dividends	1,189	1,189
	<u>2,708</u>	<u>2,443</u>
Increase in funds	681	3,101
Funds, beginning of year	40,134	37,033
Funds, end of year	\$40,815	\$40,134

Notes to Consolidated Financial Statements — March 31, 1977

1. Summary of accounting policies:

- (a) **Principles of consolidation** – The consolidated financial statements include the accounts of Canadian Marconi Company and all its subsidiary companies which are Marconi Company Inc., Kaar Electronics Corporation and Kaar Communications Corporation.
- (b) **Translation of foreign currencies** – Current assets and liabilities of Canadian Marconi Company, in foreign currencies, are translated into Canadian dollars at rates of exchange in effect as at the balance sheet date. Amounts entering into results of operations are translated at average rates. Operating results, assets and liabilities of foreign subsidiaries are translated into Canadian dollars at rates of exchange in effect as at the balance sheet date. Exchange profits and losses are included in income.
- (c) **Inventories** – Work in process, raw materials and bought-out components and finished products are valued at the lower of cost and estimated net realizable value. Deductions are made for progress payments received and any losses incurred or expected to be incurred on contracts not completed at the balance sheet date.
- (d) **Research and development expenditure** – Research and development expenditure is charged against income as incurred except where recoverable from current contracts in progress.
- (e) **Fixed assets and depreciation** – Fixed assets are recorded at cost. Depreciation is provided on the straight-line method at rates based on the estimated useful lives of depreciable assets. Fixed assets retired or disposed of are eliminated from the asset and accumulated depreciation accounts. Gains and losses from disposals are included in income.
- (f) **Income taxes** – The Company follows the practice of providing for income taxes based on income included in the financial statements regardless of when such income is subject to payment of taxes under the tax laws.
- (g) **Recognition of revenue** – Sales are normally recognized when products are delivered to customers; however, revenue from major long-term contracts is recorded on the percentage of completion method based on the ratio of the incurred costs to date to the projected total costs of completing the contracts.

2. Inventories:

	1977	1976
	(in thousands)	
Inventories comprise –		
Finished products	\$ 2,277	\$ 3,072
Work in process, less progress payments	6,255	4,687
Raw materials and bought-out components	2,898	3,031
	<u>\$11,430</u>	<u>\$10,790</u>

3. Fixed assets:

	1977			1976	
				(in thousands)	
	Cost	Accumulated depreciation	Net		Net
Land	\$ 483	\$ —	\$ 483		\$ 483
Buildings	7,296	3,146	4,150		4,398
Plant, machinery and equipment	3,377	2,138	1,239		1,310
Equipment on rental	2,600	1,449	1,151		1,019
	<u>\$13,756</u>	<u>\$6,733</u>	<u>\$7,023</u>		<u>\$7,210</u>

The estimated useful lives of depreciable assets are as follows –

Buildings	25 to 50 years
Plant, machinery and equipment	up to 10 years
Equipment on rental	up to 4 years

Capital expenditure authorized and committed at March 31, 1977 was \$141,000.

4. Long-term debt:

Sinking fund provisions of the series A and B debentures require payments aggregating \$316,000 annually in the years 1977 to 1979 inclusive, and \$390,000 in the years 1980 and 1981. Debentures have been purchased and surrendered for cancellation in full satisfaction of requirements of the years 1977 to 1979 inclusive, and in partial satisfaction of requirements of the years 1980 to 1982 inclusive.

5. Remuneration of directors and officers:

	1977		1976	
	Number	Amount	Number	Amount
Directors	10		10	
Aggregate remuneration as directors		\$ 25,350		\$ 22,666
Officers	12		12	
Aggregate remuneration as officers (the 1977 amount includes \$298,000 to fund an outstanding past service pension liability)		894,274		527,865
Number of officers who are also directors	2		2	

6. Pension plan:

At March 31, 1977 there is an estimated unfunded liability in respect of past service in the pension plan amounting to \$1,000,000. This liability is to be funded by 1990.

7. Anti-inflation program:

The Company is subject to the controls on prices, profits, compensation and dividends instituted by the Government of Canada in the Anti-Inflation Act.

Operating Divisions

AVIONICS DIVISION

Development, manufacturing and marketing of various products:

- airborne systems including Doppler Navigation, Automatic Omega, Area Navigation, and aircraft instrumentation;
- ground-based systems including Satellite position location, TELEX exchange, TWX/TELEX conversion, and computer control;
- electronic components including printed wiring boards, microcircuits, transformers, coils, filters, and delay lines.

MARINE AND LAND COMMUNICATIONS DIVISION

Development, manufacturing, marketing and servicing of FM mobile two-way radio and base station equipment in the VHF and UHF frequency range, portable, mobile and fixed HF single side-band transceivers, marine radio telephones and marine radar. Marketing and servicing of portable radio telephones, marine navigation and fish-finding equipment, radio and television broadcast station equipment and electronic test instruments.

SPECIAL SERVICES DIVISION

Installation and maintenance of ground-based radar, communications, and air navigation systems; operation of defence communications and detection systems; repair and overhaul of radar, sonar, and communications equipment; repair and calibration of test equipment. Custom-built fabrication of fault alarm annunciators, master station alarm displays, battery chargers and perimeter intrusion alarm systems.

TELECOMMUNICATIONS DIVISION

Development, manufacturing and marketing of commercial and military land-based microwave communications systems including receiver-transmitters, pulse code modulation (PCM) multiplexers and associated special-to-type test equipment.



CANADIAN MARCONI COMPANY

FIRST NAME IN RADIO-ELECTRONICS